



Q3 2022 Trading Update

8 November 2022

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Operator: Thank for standing by. Welcome to the Rubis 3rd Quarter 2022 Trading Update Conference Call. At this time, all participants are in listen-only mode. After the Speakers' presentation, there will be the question and answer session. To ask a question during the session, you need to press star one one on your telephone keypad. You will then hear an automatic message advising your hand is raised. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Bruno Krief. Please go ahead.

Rubis Q3 2022 Trading update

Bruno Krief

CFO, Rubis

Thank you. Good evening or good afternoon, depending, everybody. I am Bruno Krief, CFO of Rubis, and with me, Anna Patrice, Head of IR. So we are together to present to you the third-quarter numbers and comment on the activity.

We made public just 15 minutes ago the release, so you have the main facts and numbers relative to the third quarter. In summary, I would add that this Q3 is showing again, and in continuity with the previous quarters or half year, very good momentum, both in volume and, above all, in margin. And this in an environment where oil prices have been still increasing.

Retail & Marketing

So, we have had – if I take the main driving force and operations of Rubis, to start with, the Retail & Marketing operation, you may have seen an underlying growth in volume of 1% versus reported growth of –3%. This is due to the Haiti situation, which has deteriorated during September, and the choice we have made in optimisation of some volumes in the Aviation segment in Africa. Just also to reduce your worries about Haiti, things have deteriorated in terms of safety in the country and economically, as you know, but in terms of cash or in terms of margin contribution, there has not been any big change compared to the previous quarters. On the contrary, as a whole in Retail & Marketing, we have experienced quite strong profit units advance, which has more than compensated for the slight retreat in reported volume of –3%. So, all in all, a very good, a very strong advance in Retail & Marketing.

Support & Services

In Support & Services, which is the logistics part of the Retail & Marketing operation, we have seen a steady unit profit improvement during the quarter, along with – of course, along with nominal figures linked to the strong increase in oil prices of some 80%. You may have seen a big number in terms of sales numbers, but what is important is that we have had, over the past nine months, a double-digit increase in profit contribution, in margin profit contribution from Support & Services. So, it's again a good performance.

Rubis Renewables

Looking now at the new branch, which is Rubis Renewables, which is quite young within Rubis, we started consolidating the branch just in April this year. We can say that we have a total capacity in place at the end of the quarter of 368 megawatts. It's a progression of 38 megawatts compared to the end of Q2, so representing a sort of 11% increase in capacity installed. We are finalising the construction linked to the various awarded projects of the previous CRE and these will be commissioned by the end of the current year and the start of next year. You know that the government is pushing and putting in place incentives to accelerate the energy transition and, in parallel to that, offering more facility and less administrative constraints to push this sector.

Rubis Terminal

Then, as a summary, our JV, Rubis Terminal. Rubis Terminal did an excellent third quarter, with an accelerating growth of 5% in terms of storage revenues. And this is above the nine-months year-on-year increase in revenues, which were 4%, so still accelerating, driven by biofuels revenues, chemical storage revenues also, which are benefiting mostly from the current uncertainty, current disruption that has pushed the demand for chemicals, fertilisers or vegetable oils, in Spain, France and ARA zone. And we had all in all a quite high level of capacity utilisation rate, which is, if I simply take the ARA zone, close to 100%.

Geographical regions

So, this was general comments for this quarter. You have more details on the press release regarding each geography.

Europe

We can say in short that in Europe, volumes were almost stable or slightly decreasing by 2%. They were not helped by the weather conditions. We had a strong Switzerland and strong Spain, a stable France, and Portugal more affected by weather conditions, but all in all we had quite good development.

Caribbean

The Caribbean did quite good. If we exclude Haiti for the specific reasons we mentioned earlier, volumes were increasing by 8%. And, as expected before, we had a strong momentum in tourism and aviation, from the post-Covid recovery. In general, the service-station network, which is the main part of the business, was up 8%, and we had an excellent increase in gross profit or unit margin during this quarter.

Africa

Then, in Africa, we can say that we had quite stable volumes, if I take into consideration the optimisation of the aviation segment in Kenya, where it was extremely competitive and very low margin business during the period, so we decided to reduce our exposure to this business, which explained the decline in volumes. If I take the core volumes in Africa, which are the service station and mostly in Eastern Africa, we are experiencing a 25% increase, which is a very strong improvement in volumes and a strong improvement in attached gross profit.

The bitumen segment was a bit lagging, for external reasons, which was the heavy rain season, preventing the activity to pursue normally after the traditional rain season, which is June to September. But we had a quite long rain season, preventing the business to develop. So, we are not worried about it. I mean, we have the possibility to catch up during the current quarter.

Closing Remarks

So, we did comment the Support & Services also, which was quite strong in terms of contribution for the first nine months of the year. Stable in profit for the current quarter. Rubis Renewables, we comment also the increases in installed capacities or in assets in operation of 11%. The numbers in terms of sales revenues are still marginal at this stage of the development of the company of course, but as we stated, we have increased our secured portfolio by 25 megawatts when we got the result of the CRE tender offer last July. So, it's a positive development and which does represent some 10% market share for all the portfolio that were attributed last July.

So, this is all we can say at this stage of the quarter. Again, a strong development and above all a strong advance in profits.

Bruno Krief: So, I think we can propose the attendants to have an exchange together with us, and if we can start the Q&A session, if possible.

Q&A

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question, please press star one one on your telephone keypad.

Now we're going to take our first question. And the first question comes from the line of Jean-Luc Romain from CIC Market Solutions. Your line is open, please ask your question.

Jean-Luc Romain (CIC Market Solutions): Good afternoon. Thank you for taking my questions. I have two actually. One is very simple. Could you remind us the value of Haiti in your balance sheet?

And the second question is in East Africa, after having increased the jet-fuel volumes, the net impact will be a better profitability of your sales. Is that correct, and by how much does it increase your margins there?

Bruno Krief: Okay. So, to answer your first question, the Haiti value was documented at the time we disclosed the transaction in April 2017. And currently, it is in the books at €240 million. This is for the answer for your question related to Haiti.

I didn't catch very well the question related to Eastern Africa,

Anna Patrice: Are you asking about the product mix and support to the gross profit?

Jean-Luc Romain: Exactly.

Anna Patrice: Well, there was not too much of support. Actually, most of the segments within Africa, they have improved the unit profit. So, even though the aviation volumes were down, the unit profit of aviation has also improved, along with all other segments. So overall, the increase in gross profit was driven by other segments, and the volumes of other segments, but not just by the product mix.

Bruno Krief: So, we are clearly on track with the objectives and what we were expecting two years ago when we were telling you that during 2021/2022, we'll put in place all the necessary assets and efforts and marketing to achieve our objectives in terms of profit contributions for the year 2024, which is still expected to be a €60 million EBIT contribution. So, we are clearly on track toward these objectives.

Jean-Luc Romain: Thank you.

Operator: Now we're going to take our next question. Please give us a moment. And the next question comes from the line of Guillaume Muros from Societe Generale. Your line is open, please ask your question.

Guillaume Muros (Société Générale): Hello, Anna, hello Bruno. Thanks for taking my questions. Sorry, because maybe some of them have already been answered. I have a couple. I'll ask them one by one and let me know if they have already been answered.

The first one is on Haiti. How much does it weight today approximately in terms of revenues, volumes or profitability versus in the past? That's my first question.

Bruno Krief: Well, in terms of net profit contribution, it's clearly in the region of 2% of total Group profits. This was if I take the 2021 numbers. So, out of the €300 million, total contribution – the Group contribution, less than 2%.

Guillaume Muros: And in the past? Thanks.

Bruno Krief: In the past, so we have – we took over the company in 2017 and so in April, we had seven months of operation. It was at the time in the region of €9 million. I'm talking about net profit after tax here, bottom line. And in the year 2018 to 2019, the record year in 2019 – €9 million came to €20 million. So, it did represent some – between 7% and 8% of total contribution four years ago, to 2% today.

Guillaume Muros: Very clear. Thanks.

Anna Patrice: And in terms of volumes, it represented a bit under 10% of distribution volumes in 2021, and now it's about 6%, 7% of the distribution volumes.

Guillaume Muros: Okay, clear. Of the distribution volumes, but in the – I mean in distribution?

Anna Patrice: Retail & Marketing.

Guillaume Muros: I have a couple of more questions here, moderator. Sorry for that. Thanks. So, second one will be on Caribbean. Are you seeing any impacts so far from rising airfare prices, or airline prices in tourism activity in the region?

Anna Patrice: No. We still had a very good growth. So, if we look at the aviation volumes without Haiti, it was up 50% in Q3. So, you see that there was a bit of a slowdown obviously compared to the first half of the year, but it's still very strong growth in Q3 2022.

Guillaume Muros: Okay. Then, another one on the aviation contract optimisation in Africa. Is this something definitive? Are these volumes that won't come back in the future, or are you renegotiating these contracts?

Anna Patrice: Usually with aviation volumes, you bid for the volumes on around about one or two year period, it depends. Usually in Africa, it's for one year. So, the fact that we lost those volumes, it means that they will not come in the next six, nine months, for sure. Now, it depends what will happen if the airlines will be happy with their suppliers, if they will put their orders up for negotiation or not. So, the fact that we didn't bid and we lost them doesn't mean that we will not bid for them in the future if the profitability will be acceptable.

Guillaume Muros: Thanks.

Operator: Thank you.

Guillaume Muros: And, sorry, I have – I have...

Bruno Krief: Please.

Operator: Excuse me, Guillaume, please, can you press star one one again on your telephone keypad.

Excuse me, Guillaume, please, can you press star one one on your telephone keypad.

Bruno Krief: We have a problem.

Operator: Guillaume, your line is open again.

Guillaume Muros: Yes, thank you. The line is not working very well today, on my side at least.

Bruno Krief: Yes, Guillaume, we are there.

Guillaume Muros: So, two last ones, one on unit profit. You mentioned during the first half 2022 that there was a positive stock effect during the first half of the year, but that this would reverse in the second half – now – of the year. What we're seeing during this third quarter is that unit margins were up, as you mentioned, so my question is, should we expect a drawdown in unit margins during the fourth quarter of 2022 or early 2023?

Anna Patrice: And it's a good question, and the answer is not very straightforward. So, it depends on what will happen with the oil prices. It will also depend on what will happen with the US dollar. So, you know that some of the profits are generated in the US dollar currency, but we report in euros, so a strong US dollar is to a certain extent supportive to the unit profit or to the gross profit of the Group. So, we did have some support from that.

And then we also see that the oil price, if we look at Q3 versus Q2 2022, so over the last few months, it has declined, so there is also, to a certain extent, some positive impact on the unit profit in some regions.

And then, it's also true that there was some also optimisation on the supply or on the contracts, so there was some underlying improvement. So, depending on where the oil price will be, and depending on where the US dollar will be, that will, to some extent, impact our unit profit. You know as well that there can be always a bit of a volatility from one quarter to another, but overall, over the long period of time, the unit profit is rather stable.

Bruno Krief: So, there is a sort of compensation mechanism between the inventory effects, when it is up, when prices are going up, so positive, and conversely, when prices are going down, we have a sort of a parachute effect on the margin side, so, on the 12-months' basis, you manage to smooth the effects of both the margin effect and the inventory effect, historically.

Guillaume Muros: Okay, thanks. And last question. So, all in all, is it perhaps too early to tell, but should we expect growth as well in 2023 earnings?

Anna Patrice: Well, it's a bit difficult to say, because it depends on what will happen with the oil prices, etc., but there is no reason why there should not be earnings growth in 2023.

Bruno Krief: First, we have a very solid business base across the world. There are some exceptions, of course, but across the world very solid. We are seeing a capacity to gain a new customer, to gain market share. It could be in Europe, it could be, for example, in the Caribbean, a new customer, new big commercial industrial customer, with good margin. The service station in Eastern Africa is also increasing both in volumes and in profit contribution. So, we have a very stable offer to our customers and we are selling, as you know, a product which is a prime necessity product, it's very basic. So, we have never been exposed, in the past, to huge volatility in demand or in earnings, apart from of course the Covid situation.

Guillaume Muros: Okay, thank you.

Operator: Thank you. Now we're going to take our next question. Please stand by. And the next question comes from the line of Mourad Lahmidi from Exane BNP Paribas. Your line is open, please ask your question.

Mourad Lahmidi (Exane BNP Paribas): Yes, thank you. Good evening. So, I have a question on your gross margin for Q3. So, you mentioned in the release that it's up 16%. Can you give us the number for the nine months, please?

Anna Patrice: It is up 17%.

Mourad Lahmidi: Okay. So, that is the gross margin in million euros? So, that means that unit margin is up much more than that. It's around 20%. Am I right?

Anna Patrice: Yes, absolutely.

Mourad Lahmidi: Okay. Then, when I look at consensus, I know that gross margin increase doesn't translate into EBIT increase, but we can do a proxy. It's expecting 10% increase in EBIT for 2022. You seem to be well ahead of that figure, so how comfortable are you with the market expectations for this year?

Anna Patrice: We are quite comfortable, and if you look at the EBIT, you will see that you have the Retail & Marketing and we're talking about the profit in Retail & Marketing. You do have the Support & Services business, and we said that in the Support & Services, the earnings were more or less flattish in Q3. So, you see that there is a bit of compensation coming here. And that, as you know, there are also costs at the holding level, right? So, that together gives you overall EBIT for the Group. And you know as well, there's a small contribution from Photosol, but not really very material on the EBIT level.

If you look below, then you also will have a look at interest costs, also at the cost associated with acquisition of Photosol and you will come to the net profit of the Group. So, we said that we are confident in good development for 2022, so I think it's a good indication of where we should land. So, we're quite comfortable with the consensus.

Mourad Lahmidi: Okay. And then, some detail about the unit margin development in Q3? So, you gave us some of the main movers, so the dollar, quarter-on-quarter oil price. Was there any effect from the catch-up with price formulas in some regulated markets that's been lumpy, or not at all?

Anna Patrice: There was improving unit profit in Kenya as well. And the government increased the prices, so indeed, there is improving profits over there.

Bruno Krief: Whereas there is no longer subsidies in Kenya, and this is also linked to the new president, who came in last August after the presidential election. And one of the first decision he took was to increase the petrol prices to tackle the problem of the subsidy. So, this is well in place currently.

Mourad Lahmidi: Okay. So, the price formula has changed, but you have been able to more than catch up with that. Is that right?

Anna Patrice: The price formula itself hasn't changed, but in the past, the government didn't increase the prices as it should have been increasing. On the contrary, they were paying to the fuel companies their difference in terms of the – with the subsidies. Now, this is over, so they increased the price to correctly reflect their supply prices, so the government doesn't have to pay the subsidies as it used to do in the past months.

Bruno Krief: There is no longer any caps on the price formula.

Mourad Lahmidi: Okay. Thank you. Very clear. And last one for me. So, you mentioned that you've exited from jet fuel contracts in Kenya. Is it once and for all – you'll never come back to jet fuel? Or is it going to be up and down from this type of product? Thank you.

Anna Patrice: No. So, the jet fuel, this is usually the short-term contract so to say, so we're talking about one-year supply, for instance. And so, we see that the profitability is not there. We do not prolong or we do not bid for the contracts. And so then what has happened in Kenya, that profitability of the contract was not satisfactory for us. Remember that when we took KenolKobil, roughly one-third of the volumes were from aviation. At that time, some profits were still loss-making, so first step was to get rid of the loss-making contracts.

And now, we have also reduced the projects with low margins. It doesn't mean that if in the future there will be opportunities to have contracts with sustainable margins, we will bid again. If not, we will not bid. So, it really depends on what could be the underlying profitability of those contracts.

Mourad Lahmidi: Okay, thank you very much, Anna. Very clear.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Emmanuel Matot from Oddo BHF. Your line is open, please ask your question.

Emmanuel Matot (Oddo BHF): Hello, Bruno. Hello, Anna.

Bruno Krief: Hello.

Emmanuel Matot: I have some remaining questions. Do you think first the situation in Haiti is clearly very specific, or it can happen in other countries where you do have operations taking into account the deterioration of the macro environment, the very high inflation context we are seeing? What's your view about that? That's my first question.

Bruno Krief: No. Okay. Shall we answer each question, or you want to give the list of questions?

Emmanuel Matot: No, let's go one by one please.

Bruno Krief: So, okay, I was saying that Haiti is a quite unique situation we have ever experienced, with violence, gangsterism, social unrest. So, it's a very specific situation, very specific place. We have absolutely no similar situation in Rubis' perimeter. That's clearly what we can say. It's very unique. You know that even

the president of the country has called for the United Nations to send guards to control the country. It's a big chaos, but it is limited to this country within the Rubis' perimeter and absolutely no contamination regional or no experience of such situation in Africa clearly. And we told you that total contribution last year was limited to 2% of total net profits. And we are not losing money today, or so far for the first nine months, in Haiti.

Emmanuel Matot: Okay. And if the situation is further deteriorating in Haiti, do you have a plan to exit that country? Is that a scenario you are evaluating, or not at all?

Bruno Krief: No, we are not. We are there. We have no choice but to stay there today, because nobody can escape the country and you cannot escape and leave a company with the staff like this. So, we have a responsibility. Nevertheless, it's a country with 12 million inhabitants. It's a country which is not very far from the US border. So, there are limits where the total unrest can reach without probably the intervention of the US.

The country is today going nowhere, but the company itself, our subsidiary is in operation. It does operate. It is capable of importing the product. It is capable of storing the product and delivering the product to the station. So, the company is in a good shape. The country is of course in total disorder. We cannot expect the situation to last for 10 years. So, there will be some concerted action one day, and probably we are approaching this day, to reduce this state of chaos in Haiti. But we are there.

Anna Patrice: And probably you've seen in the newspapers that the US is trying actively to bring also international community to support the Haitians and bring down the gangs over there.

Emmanuel Matot: Okay. And maybe a last question, because you are always mentioning the uncertain macro environment in your press release. What type of impact can we expect from this negative macro environment? Is that only on volumes we can be cautious, or can be also on gross margin? Do we have to take into account those uncertainties in our model for at least next year?

Bruno Krief: But you know, Emmanuel, that Rubis has shown a certain capacity of resilience over the past 20 years, and even recently, with various external parameters hitting us, but I would say fundamentally we are there. And if we look at the business, the advantage of Rubis is its resiliency. It's also its presence in very diverse geographies. Okay, we are in Haiti, but we are also in Switzerland, we are in Europe. As I mentioned to you, Rubis Terminal, in which we have a 55% ownership, is doing very well. We are present in a new sector, which is the renewable and the solar farm business, which fundamentally is growing.

So, you have to take into review the Group as a whole and to see its positioning and its capacity to resist and, even in this situation, to improve its positions. So, yes, the world we are living in is made of uncertainty; interest rates are increasing, there is change in forex, there is risk of recession, inflation. But we have also shown, during the Great Financial Crisis in 2008, 2011, that volumes were still holding very well within Rubis' perimeter. So, we are selling a product which is fully corresponding to non-discretionary needs, and it's a basic product, both for industrial and for the residential customer. So, that's how we can evolve within this context.

Emmanuel Matot: Okay. Thank you very much for these answers.

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question, please press star one one on your telephone keypad.

There are no further questions at this time. I would now like to hand over the call back to Bruno Krief for closing remarks.

Bruno Krief: Well, thank you very much, all. We believe we had the chance to offer you a good review of the Group during this third quarter. Again, a strong quarter, good momentum in line with the first half of this year, and we are quite confident for the full results for the year 2022.

Thank you very much all and we'll be pleased to come back to you for the next meeting. Bye bye.

Operator: That does conclude the conference for today. Thank you for participating. You may now disconnect. Have a nice day.

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